MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2020/2021

BAC 3674 – ADVANCED MANAGEMENT ACCOUNTING

(All Sections / Groups)

9 MARCH 2021
9.00 am. – 12.00 pm.
(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 6 pages (excluding cover page) with 4 Questions only.
2. Answer **ALL** Questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

SA Berhad produces packing materials used in bagging system. The company has developed a new material which will reduce the packing time for grocery stores. It is hoped that the resulting fall in costs will make the product attractive to large grocers. However initial customer trials have indicated that customers are concerned that the product's effective life will be shorter than that of the traditional products which it is intended to replace.

One potential customer has agreed to use the product for a trial period. This customer will not pay more than RM45.00 per kg, and requires 10,000 kg per month. It has been agreed that this will be ordered in batches of 250 kg.

SA Berhad uses a variable cost-plus approach to pricing, and adds 50% margin to variable cost to calculate selling price. Activity based costing is used to calculate overheads.

It has been suggested that the company should use a target cost approach to pricing for this product.

You have been asked to consider the company's options and to report back to the management team.

The following information has been collected:

Product Costs:

Materials	RM8.00 per kg produced
Labour	RM9.00 per kg produced

You have estimated that each 200 kg produced will require four deliveries of raw materials, and eight machine hours.

Company Overheads:

Machine running	RM276,250 per year
Materials handling	RM118,500 per year
Order processing	RM390,000 per year

Activity levels (for the company)

Machine hours	5,000 per year
Materials deliveries	2,000 per year
Customer orders	3,000 per year

All computations are to be rounded up to its nearest 2 decimal point.

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Required:

a) Compare and contrast variable cost-plus pricing and target pricing, and indicate the circumstances in which each might be appropriate. (8 marks)

b) Compute the selling price based on the compay's pricing policy and indicate whether the customer's maximum price is consistent with the company's pricing policy. (8 marks)

c) Assume that further tests have confirmed the product's useful life, and that SA Berhad wishes to maximise profits by reducing costs. Indicate techniques which could be used to achieve a reduction in the product cost. (5 marks)

d) Define Business Process Re-engineering (BPR). (4 marks)

[TOTAL: 25 MARKS]

QUESTION 2

PART A

International Chocolate (M) Sdn. Bhd. (ICM) produces and sells fine chocolate. In addition to fine chocolate, ICM also produces chocolate-covered pretzels (crispy biscuit baked in the form of a knot or stick) in its Melaka plant.

This product is sold in five kilogrammes metal canisters (round containers). The plant manager, Alice Lee, was recently approached by Canister Sdn. Bhd. with an offer to supply the canisters at a price of RM1.05 each.

Currently, ICM produces 760,000 canisters internally in 2020. The demand for canisters for year 2021 is 760,000 canisters.

ICM's conventional product costing system assigns the following costs to 760,000 canister production in year 2020:

	RM
Direct material **(Note 1)**	300,000
Direct labour (12,000 hours @ RM15 per hour) **(Note 1)**	180,000
Variable overhead (RM10 per direct labour hour) **(Note: 1)**	120,000
Fixed overhead (RM45 per direct labour hour) (**Note:2)**	540,000
Total cost	1,140,000
Unit cost	1.50

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Note 1:
Direct material, direct labour and variable overhead costs are subjected to increase by 10%, 2021.
Note 2:
The fixed overhead includes RM80,000 of supervisory costs and RM28,000 of machinery depreciation, which are avoidable if the canisters are purchased. These costs will remain unchanged for year 2021.

Alice Lee has heard about Activity based costing (ABC) and with the help from ICM's management accountant, Ramli, who has concluded that if the canisters are purchased the following activity driver levels associated with canister production could be avoided:

Cost driver rate for 2021	**No of activity driver avoided**
RM600 per product specs	10 product specs
RM40 per supervisory hours	2000 supervisory hours
RM8 per material handling hours	6000 material handling hours
RM250 per purchase order	55 purchase orders
RM300 per inspection	30 inspections
RM400 per set up	15 set ups
RM2.40 per machine hour	70,000 machine hours

Required:

a) Complete the relevant cost analysis of the make or buy decision using conventional data. On quantitative basis, state your recommendation. (4 marks)

b) Complete the relevant cost analysis of the make or buy decision using ABC data. On quantitative basis, state your recommendation. (6 marks)

c) On quantitative basis, briefly explain why ICM should make its decision based on (b) and outline five strategic factors that ICM should consider before making the final decision to buy from Canister Sdn. Bhd. (8 marks)

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Commented [ZBA1]: … in 2021 (since we are already in 2021)

Commented [SKD2R1]: Deleted next year

Commented [ZBA3]: … purchased,

Commented [SKD4R3]: ?

Commented [ZBA5]: I couldn't understand this table, as well as the one below. Is this a list? If it is, is should be listed out, not in tabular format. In a table, I am expecting some kind of relationship between the items in the rows/columns.

Commented [SKD6R5]: Prepared in a table now

Commented [ZBA7]: State your recommendation.

Commented [SKD8R7]: ok

Commented [ZBA9]: State your recommendation.

Commented [SKD10R9]: ok

PART B

High and Low Sdn. Bhd. produces fluorescent marking pens at High Park, a suburb of Melaka. One of its top selling lines is the "High pen", which is fluorescent yellow and has a special tip that does not dry out when the cap is left off. Earlier this year, a Korean company entered the market offering a similar pen at a price 25% below the "High pen" price of RM2.00 per unit. Company policy at High and Low requires a profit margin equal to 30% on each of its products.

Required:

a) What target cost would have to be set for the "High pen" to remain competitive and still meet the target profit margin of the company? (2 marks)

b) Explain how the company could apply the principles of life cycle management to achieve this cost. (2 marks)

c) Assume that High and Low examines the current costs for the "High pen" and its existing capabilities, and decides that the target cost is not achievable. Explain how the company could persist with target costing by adjusting the target cost, and assess the implications of this situation for the company's target profit margin.

(3 marks)

[TOTAL: 25 MARKS]

QUESTION 3

PART A

Calculus Company makes calculators for students. The company has been working on improving its quality over the last year and it wants to confirm a reduction in their costs-of-quality (COQ). Here are the results:

ANNUAL COQ REPORT, Calculus Company

	2019 RM	2020 RM
Quality training	5,500	6,250
Machine repairs	4,000	3,750
Warranty repair costs	8,300	6,000
Design engineering	4,500	5,000
Product testing	3,100	4,000
Rework	9,250	7,880
Total COQ	34,650	32,880
Total Revenue	525,000	600,000

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Required:

a) Identify the category for each of these COQ.

(2 marks)

b) Prepare a COQ Report with sections consisting of the subtotal, the percentage of revenues and the percentage of total COQ on a categorical basis.

(6 marks)

c) Based on the results obtained from requirement (b), would you conclude that Calculus' quality program has been successful? Discuss.

(4 marks)

Commented [ZBA11]: Should be requirement b) right?

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PART B

Halo Telecom sells telecommunication products and services to a variety of small businesses. Two of Halo's key clients are Square and Cloudburst, both fast-growing technology start-ups located in Cyberjaya. Halo has compiled information regarding its transactions with Square and Cloudburst for 2020, as well as its expectations regarding their interactions over the next 3 years:

	Expected Annual Percentage Increase		**2020**	
	Square	**Cloudburst**	**Square (RM)**	**Cloudburst (RM)**
Sales revenue	6%	5.5%	567,000	3,510,000
Cost of sales	5%	4.5%	364,800	3,060,000
Net cash flow			202,200	450,000

Halo's transactions with Square and Cloudburst are in cash. Assume that they occur at year-end. Halo is headquartered in Kuala Lumpur and pays no income taxes. The owners of Halo insist on a required rate of return of 12%.

	Year 1	**Year 2**	**Year 3**
PV factor for 12%	0.893	0.797	0.712

Required:

a) What is the expected net cash flow from Square and Cloudburst for the next 3 years?

(4 marks)

b) Based on the net present value from cash flows over the next 3 years, is Cloudburst or Square a more valuable customer for Halo? Justify your answer with net present value computation.

(3 marks)

c) Cloudburst threatens to switch to another supplier unless Halo gives a 10% price reduction on all sales starting in 2021. Calculate the 3-year NPV of Cloudburst after incorporating the 10% discount. Should Halo continue to transact with Cloudburst?

(3 marks)

d) What other factors should it consider before making its final decision? Discuss.

(3 marks)

[TOTAL: 25 MARKS]

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QUESTION 4

Berita Terkini Group has two major divisions: Print and Internet. Summary financial data (in millions) for 2019 and 2020 are as follows:

Division	Operating Income		Revenues		Total Assets	
	2019	2020	2019	2020	2019	2020
	RM	RM	RM	RM	RM	RM
Print	3,720	4,500	18,700	22,500	18,200	25,000
Internet	525	690	25,000	23,000	11,150	10,000

The two division managers' annual bonuses are based on division ROI (defined as operating income divided by total assets). If a division reports an increase in ROI from the previous year, its management is automatically eligible for a bonus; however, the management of a division reporting a decline in ROI has to present an explanation to the Berita Terkini Group board and is unlikely to get any bonus.

Carlos, the manager of the Print division, is considering a proposal to invest RM2,580 million in a new computerised news reporting and printing system. It is estimated that the new system's state-of-the-art graphics and ability to quickly incorporate late-breaking news into papers will increase the division's operating income in 2020 by RM360 million. Berita Terkini Group uses a 10% required rate of return on investment for each division.

Required:

a) Use the DuPont method of profitability analysis to explain differences in 2020 ROIs between the two divisions. Use 2020 total assets as the investment base.

(6 marks)

b) Why might Carlos be less than enthusiastic about accepting the investment proposal for the new system despite his belief in the benefits of the new technology? Discuss.

(5 marks)

c) Jaafar, CEO of Berita Terkini Group, is considering a proposal to base division executive compensation on division RI.

i) Compute the 2020 RI of each division.

(2 marks)

ii) Would adoption of an RI measure reduce Carlos' reluctance to adopt the new computerised system investment proposal? Explain.

(3 marks)

d) Jaafar is concerned that the focus on annual ROI could have an adverse long-run effect on Berita Terkini Group's customers. What other measurements, if any, do you recommend that Jaafar use? Explain briefly.

(4 marks)

e) Berita Terkini Group might also adopt benchmarking for performance evaluation. Explain the role of benchmarking in evaluating managers.

(5 marks)

[TOTAL: 25 MARKS]

End of Paper.

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Commented [SKD14R13]: ok
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